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S E C R E T SECTION 01 OF 02 VILNIUS 001352

SIPDIS

STATE FOR EUR/NB, EUR/PRA (DLINNET, CRHODES), ISN/CPI,
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TAGS: [ETTC](#) [LH](#) [MARR](#) [MCAP](#) [PREL](#) [LT](#) [IR](#) [CY](#)

SUBJECT: NO SIGNS OF PROLIFERATION RISKS ASSOCIATED WITH
ACHEMA'S PURCHASE OF FERTILIZER PRODUCTION EQUIPMENT

REF: A. STATE 27651

[1](#)B. NICOSIA 1861

[1](#)C. NICOSIA 1893

Classified By: Economic Officer Scott Woodard, for reasons 1.4 (a) and
(d)

[1](#)1. (S) SUMMARY: We discussed Achema's purchase of the fertilizer production equipment described in reftels with company representatives, and are reassured by what they told us. Achema plans to relocate 90-95 percent of the purchased equipment from Cyprus to its production facility in Lithuania so that it can begin production of nitrogen-phosphate-potassium (NPK) fertilizer. The company determined that it is not economically advantageous to transport the remaining 5-10 percent of the equipment, which it plans to scrap in Cyprus. Achema's representative told us it has no plans to sell or transfer any of the equipment to a third country and that it had no knowledge that the equipment might have been used to process phosphate ore from South Africa with significant uranium content. END SUMMARY.

ACHEMA: LITHUANIA'S THIRD LARGEST COMPANY

[1](#)2. (U) Achema, founded in the 1960s, has been publicly traded on the Lithuanian stock exchange since 1994. Measured by revenue, it is the third largest company in Lithuania (USD 520 million in revenues for 2004), and the largest producer of nitrogen fertilizers in the Baltics. The company employs some 1,200 people and produces resins, glues, and dyes in addition to fertilizer and other industrial chemicals. Achema is a member of the European Fertilizer Manufacturers Association and the International Fertilizer Association.

OPENING A NEW PRODUCTION LINE

[1](#)3. (S) We visited the Achema facility in Jonava, Lithuania (approximately 120 km northwest of Vilnius) on December 29. We spoke with the Achema's Technical Director Juozas Tunaitis, who helped negotiate the deal to purchase the fertilizer production equipment from Hellenic Industries in Cyprus. Tunaitis met with us on short notice, less than 24 hours after we first contacted Achema.

[1](#)4. (S) Tunaitis explained to us that Achema is purchasing the fertilizer production equipment as part of the company's plans to begin production of NPK fertilizer in mid-2007. He said that Achema is currently only able to produce urea, ammonium nitrate, and urea/ammonium nitrate fertilizers. He said that his company's dependence on these production lines left it vulnerable to market fluctuations. He added that although the equipment was 20 years old, Hellenic Industries had only operated it for about seven years, so much of it was in good shape.

[1](#)5. (S) Tunaitis told us that Achema plans to relocate 90-95 percent of the purchased equipment from Cyprus to Achema's facility in Jonava. He said that it was not economically advantageous to transport the remaining 5-10 percent because it would be cheaper to purchase substitutes in Lithuania than to transport it from Cyprus. He added that Achema plans to scrap the 5-10 percent of equipment that it will not take to Lithuania and that Hellenic Industries will be responsible for the ultimate disposal of this leftover equipment.

[1](#)6. (S) Tunaitis showed us the area where Achema will locate the new production line, which is currently a square, grass-covered lot, approximately 200 meters by 200 meters, directly adjacent to a current production line. He said that Achema will construct a new building to house the relocated equipment.

ACHEMA NOT NEW TO USED EQUIPMENT

[1](#)7. (S) Tunaitis said that Achema had purchased second-hand equipment before, showing us a production facility that the company had purchased in Germany and relocated to Lithuania. He said that this facility had been up-and-running in Jonava for two years and that it was the model for what Achema plans to do with the Hellenic Industries equipment: transfer to Lithuania the bulk of the equipment and scrap the rest

locally.

18. (S) Tunaitis also said that Achema is in final negotiations with U.S.-based Louisiana Chemical, a second-hand equipment dealer, to buy a urea production line currently located at a facility in Italy. He expected Achema to have this line installed and producing in Lithuania in the spring of 2008.

NO KNOWLEDGE OF URANIUM-RICH PHOSPHATES

19. (S) Tunaitis said he was unaware of the possibility that the Hellenic Industries equipment might have been used to process South African phosphates with a high uranium content. He said that he was not aware of the ability of the Hellenic Industries equipment to process uranium or produce uranium by-products.

NO CONNECTION TO THIRD COUNTRIES

10. (S) Tunaitis said that this deal did not involve any third country, nor any companies operating in a third country.

COMMENT: NO INDICATION OF PROLIFERATION RISK

11. (S) Achema answered all of our questions directly, promptly, and openly and gave us a very reasonable explanation for its purchase of the equipment from Hellenic Industries. While we admittedly have only a limited ability to assess Achema's ultimate intentions or the capabilities of the equipment in question, we can say that this blue-chip company would be taking tremendous risks by engaging in covert schemes to transfer dual-use equipment to Iran. We see no signs indicating that Achema is prepared to take such a risk, and we have every reason to believe that this is a straightforward transaction based on legitimate business interests.

KELLY